Americans for Financial Reform Education Fund

This Week in Wall Street Reform | Sep 22 - 28

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THE TRUMP ADMINISTRATION, CONGRESS & WALL STREET

Wall Street is getting worried about a possible President Warren | Washington Post

Wall Street is sounding the alarm over Sen. Elizabeth Warren's rise in the Democratic presidential race, as investors start to grapple with the possibility the industry scourge secures her party's nomination.

One investor joked that the stock market wouldn't even open if the Massachusetts senator became president; a segment on CNBC featured the idea that married couples could get divorced rather than be subjected to Warren's "wealth tax."

Reforms Have Made Banks Safer but Markets More Brittle | Wall Street Journal

In the decade since the global financial crisis the U.S. financial system in many ways is much safer, with banks far less likely to fail or need a taxpayer bailout.

Yet in other ways it is also more brittle, as the channels that carry cash and securities between investors, banks and foreigners repeatedly clog in the face of stresses they once easily absorbed.

The latest example is last week's spike in interest rates on so-called repo loans, which are critical to the functioning of Wall Street. It follows "flash crashes" in Treasury bonds, foreign currencies and blue-chip stocks, and spikes in stock-market volatility.

CONSUMER FINANCE AND THE CFPB

Debt collectors target consumers of color, people making less than $50K | Philadelphia Tribune

A new survey asked likely voters across the country what they thought of a proposed debt collection rule. The response was strong and broad opposition.

Proposed earlier this year by Consumer Financial Protection Bureau (CFPB) Director Kathleen Kraninger, the rule would authorize debt collectors to expand how often consumers could be contacted as well as the ways such contacts could be made: email, text messages, and more.

Conducted by Lake Research Partners and Chesapeake Beach Consulting, the poll was jointly commissioned by the Americans for Financial Reform (AFR) and the Center for Responsible Lending (CRL). The results, released on September 11, found stark opposition by consumers to regulatory reforms announced by the CFPB. Consumers are strongly united in wanting more and better protection in this area of financial regulation.

Perpetual Debt in the Silicon Savannah | Boston Review

Across conversations in Kenya's pubs and WhatsApp groups, debt is on everyone's mind. The speed and ease of access to credit through new mobile apps delivers cash to millions of Kenyans in need, but many struggle to repay. Despite their small size, the loans come with a big cost—sometimes as much as 100 percent annualized. As one Nairobian told us, these apps "give you money gently, and then they come for your neck."

He is not alone in his assessment of "fintech," the ballooning financial technology industry that provides loans through mobile apps. During our research, we heard these emergent regimes of indebtedness called "catastrophic," a "crisis," and a major "social problem." Newspapers report that mobile lending underlays a wave of domestic disarray, violence, and even suicide. One young man in Meru described it as a "can of worries." His monthly salary was not enough to cover ordinary expenses such as rent and necessary contributions to extended kin networks—let alone leisure or investments in his own future. So, like millions of others, he turned to phone-based loans, at one point toggling between five different apps. Reeling as the costs added up, he struggled to repay, deleting the apps so he would not be tempted by repeated offers of dangerous debt.

U.S. consumers' access to credit may be worse than previously thought: Fed study | Reuters

As many as 60 million Americans tend to have a hard time qualifying for credit cards and other loans, making it more difficult for them to recover from financial setbacks, according to a report released on Tuesday by the New York Federal Reserve.

The findings show that the number of Americans who cannot easily access loans may be twice as many as previously estimated, when people who cannot easily qualify for loans because of blemishes in their credit histories are taken into account.

U.S. consumer watchdog hires new enforcement chief, fills other vacancies | Wall Street Journal

The U.S. Consumer Financial Protection Bureau on Wednesday announced new hires at the agency, including a former state regulator to serve as new permanent chief of its enforcement office.

Bryan Schneider, former head of the Illinois Department of Financial and Professional Regulation, will serve as the associate director of the agency's Division of Supervision, Enforcement and Fair Lending.

Warning from trade groups: Proposed CFPB debt collection rules could snag credit unions | CU Insight

A loophole in the CFPB’s proposed debt collection rules could allow the agency to take action against credit unions even though the rules were not intended for those institutions, trade groups recently warned.

The CFPB has said the controversial debt collection rules are intended for third-party debt collectors. However, trade groups are warning that a section of the rule would allow the CFPB to sanction any debt collector under the agency’s Unfair, Deceptive or Abusive Acts or Practices.

Georgetown Prof. Slams 'Valid-When-Made' Rule As 'Made-Up' | Law 360

The "valid-when-made" doctrine has been challenged as "not valid, but made-up" by a Georgetown Law professor who has waded into a Colorado bankruptcy appeal that has also caught the eye of federal regulators.

Adam Levitin, a research professor at Georgetown University Law Center, in an amicus brief filed Tuesday in Colorado federal court slammed arguments made by the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation in their own amicus, saying the reasoning put forward by the regulators is "wrong" and that the existence of a "valid-when-made" doctrine should be a matter for Congress, not the courts.

CFPB names new head of embattled enforcement division | Politico Pro

The Consumer Financial Protection Bureau announced new executive hires today, including the head of the enforcement division, which has come under fire during the Trump administration by critics who say it has gone easy on financial institutions.
The new associate director for the division of Supervision, Enforcement and Fair Lending will be Bryan Schneider, formerly the secretary of the Illinois Department of Financial and Professional Regulation. He previously worked at the Walgreen Co. for 15 years

Protect Consumers, But Let Debt Collectors Do Their Jobs | CEI

Protect Consumers, But Let Debt Collectors Do Their Jobs | CEI

Debt collector seem to be the occupation everyone loves to hate, but without them businesses large and small—from banks to gyms to doctor's offices—could not serve their customers with the assurance that their contracts would be enforced. That's why the Competitive Enterprise Institute has again weighed in with the Consumer Financial Protection Bureau (CFPB), calling for debt collection rules that protect consumers from fraud and harassment, but don't hinder debt collectors' crucial function in keeping the credit market flowing.

Understanding the crucial role played by debt collection firms in facilitating the flow of credit among consumers, entrepreneurs, and lenders in the market, the CFPB proposed a debt collection rule earlier this year that would update regulations surrounding the industry for the first time in more than 40 years. Last month, CEI scholars John Berlau and Daniel Press took the opportunity to weigh in on the proposed rule, detailing its merits and shortcomings.

DERIVATIVES AND THE CFTC

ENFORCEMENT

EXECUTIVE COMPENSATION

INVESTOR PROTECTION, SEC, CAPITAL MARKETS

PRIVATE FUNDS

Consumer group seeks identities of private buyers in El Paso Electric deal | Market Intelligence

A consumer advocacy organization is pressing the Federal Energy Regulatory Commission to require more disclosure in the pending sale of El Paso Electric Co. to an unnamed group of owners.

Announced in June, the proposed deal would see Infrastructure Investments Fund, or IIF, an investment vehicle advised by J.P. Morgan Investment Management Inc., acquire El Paso Electric for an enterprise value of about $4.3 billion, or $68.25 per share in cash.

Presidential Candidates Get Cash From Major Fossil Fuel Investors | Sludge Climate

As global temperatures rise and the catastrophic effects of climate change intensify, nearly all of the Democrats running for president in 2020 have pledged to not take campaign money from executives and companies in the fossil fuel industry. However, many of the candidates have taken large contributions from people who are crucial and active drivers of the current boom in U.S. fossil fuel production: executives of private equity firms and hedge funds that are major investors in oil, gas, and coal companies.

LittleSis and Sludge identified 14 top private equity firms and hedge funds that are heavily invested in companies involved in all aspects of the oil and gas industry, from drilling to transporting and refining, and whose employees made contributions to presidential candidates. From January to June 30, employees of these firms—primarily the CEOs, presidents, partners, and investment managers—gave $214,785 to the campaigns of eight Democrats running for president, according to a review of Federal Election Commission records.

Who Advocates For Surprise Medical Billing? – Private Equity Hides Behind Physicians' White Coats | Naked Capitalism

Yves here. We've written about the role of private equity in acquiring specialized physicians' practices, such as emergency room practices, which hospitals have bizarrely outsourced. Private equity mavens Eileen Appelbaum and Rosemary Batt documented the connection between these purchases and the rise of the patient-gouging too politely referred to as "surprise billing" or "balance billing" From a recent Institute for New Economic Thinking post:

Surprise medical billing made headlines in 2019 as patients with health insurance found themselves liable for hundreds or even thousands of dollars in unforeseen medical bills. When patients with urgent medical problems go to an emergency room (ER) or are treated by specialty doctors at a hospital that is in their insurance network, they expect that the services they receive will be 'in-network' and covered by their insurance. But often a doctor not in their insurance network is under contract with the hospital and actually provides the care. When this happens, patients are stuck with unexpected and sometimes unreasonably high medical bills charged by these 'out-of-network' doctors. This typically occurs when the hospital has outsourced the ER or other specialized services to a professional staffing firm or a specialty doctors' practice. This problem has exploded in recent years because hospitals are increasingly outsourcing these services to cut costs. And more and more patients are faced with surprise medical bills — adding substantially to the already impossible medical debt that working people face.

How Private Credit Soared to Fuel Private Equity Boom | Bloomberg

Private equity is booming, thanks in large measure to private credit, a rapidly growing slice of the debt markets where ever-growing pools of capital supplied by large investors are mobilized outside of traditional lending channels. Private credit has supplied the leverage that's helped private equity buy the businesses that have expanded its collective portfolio to its current $4 trillion. Also known as private debt, non-bank lending, alternative lending or shadow lending, private credit's growth mirrors the retreat by banks from lending to smaller or riskier borrowers after the financial crisis. Regulators and industry watchdogs have flagged concerns about the risks that lurk within this often-opaque market.

Jim Coulter: We Are Totally Unprepared | FinNews Asia

The American billionaire investment manager said the private equity industry's opaqueness would be its undoing, and gave about his views on technology and investing through economic cycles at the Milken Institute Asia Summit.

The private equity industry needs to do a better job at communicating with stakeholders and the public, TPG Capital co-CEO and founding partner James (Jim) Coulter said on a panel on global opportunities in private equity at the Milken Summit in Singapore on Friday.

Big Banks Loom Over Fed Repo Efforts | Law 360

The dominance of big firms trading in the overnight market for cash loans is hampering Federal Reserve efforts to calm short-term funding markets.

Activity in the market for repurchase agreements, or repos, where banks and investors seek more than a trillion dollars in cash loans every day, has increasingly concentrated at large banks. When those banks hoard reserves, it can drive borrowing costs higher for smaller firms, according to a study by Fed economists published last year. The five largest banks hold more than 90% of the supply of total reserves and a more even distribution would help cushion against such shocks, the study found.

MORTGAGES AND HOUSING

SMALL-BUSINESS LENDING

STUDENT LOANS AND FOR-PROFIT SCHOOLS

For-profit middlemen may be driving up the cost of online higher education | MarketWatch

Boosters of online higher education have long held out the lofty promise that it would bring down the spiraling cost of college while also widening its reach.

But a little-known industry of for-profit middlemen, which is skimming off as much as 80% of the proceeds and has U.S. revenues of $1 billion annually, may be thwarting the innovative potential of online education.

SYSTEMIC RISK

Big Banks Loom Over Fed Repo Efforts | Wall Street Journal

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Fed at a Crossroads | Bank Policy Institute

On January 30, 2019, the Federal Open Market Committee announced that it intended to implement monetary policy using a framework that requires a large Federal Reserve balance sheet and abundant reserves: the same framework that it has used since the global financial crisis. The principal alternative that the FOMC rejected was conducting policy with a small balance sheet and scarce reserves, as it did before the crisis. (For a primer on monetary operating systems and the Fed's framework debate, see the BPI research note "Understanding the Fed's Implementation Framework Debate".)

This was the third consecutive meeting at which the Fed had discussed the issue, but Fed analysis and debate on the issue extends back at least to October 2006 when Congress indicated that the Fed would get the authority to pay interest on bank deposits.

U.S. quarter-end funding costs stay elevated | Reuters

A key borrowing cost for Wall Street remained elevated on Tuesday near the end of the quarter even after the Federal Reserve injected $30 billion in longer-term cash into the U.S. banking system a week after turmoil in money markets.

This cash through 14-day loans to primary dealers was seen as a much needed boost for banks and Wall Street to avoid facing another cash crunch, analysts said.

Time to Worry About Corporate Debt Again | Wall Street Journal

High levels of corporate debt are suddenly a whole lot more worrisome than they were just a couple of months ago.

U.S. financial account figures from the Federal Reserve released Friday showed the amount of money U.S. companies have borrowed continues to swell. Domestic nonfinancial companies had $9.95 trillion in debt outstanding in the second quarter, an increase of $1.2 trillion from just two years ago. At 47% of gross domestic product, the level of corporate debt in relation to the economy has never been so high.

Booming securitized loan market has echoes of financial crisis, BIS warns | Reuters

Lending standards in the rapidly growing loan market are deteriorating and complex financial products that mask risks to banks have parallels with the run-up to the 2008 financial crisis, the Bank for International Settlements warned on Sunday.

The number of collateralized loan obligations (CLOs), a form of securitization which pools bank loans to companies, has ballooned in recent years as investors hunt for higher returns by buying into loans to lower-rated and riskier companies.

TAXES

ELECTIONS, MONEY, AND POLITICS

OTHER TOPICS